THE ECONOMIC TIMES

Alphabet Soup in Global Trade Bowl

18 Aug, 2011, 05.28AM IST, SAJAL MATHUR

Keep it simple! This punch line from a TV ad strikes a chord when you look at the landscape of regional and bilateral trade deals. There has been a stampede to negotiate preferential trade agreements (PTAs). This phenomenon is not unique to India. European integration, leading to the common market and creation of the euro, has not dampened the appetite for trade deals in Brussels. In recent weeks, the US administration has been urging the US Congress to approve the free trade agreements (FTAs) negotiated with Columbia, South Korea and Panama.

The proliferation of PTAs is certainly not limited to the developed world. In Africa, on an average, each country is party to four agreements, while in South America, the average is seven PTAs. These figures are higher when non-notified PTAs are included. The latest World Trade Organization (WTO) estimates indicate that its members, on average, are party to 13 PTAs. All WTO members, except Mongolia, are signatories to one or more PTAs.

In the past, India's PTAs were mainly with regional partners with focus on south Asia, or in the form of an exchange of preferences with other developing countries such as through the Bangkok Agreement or GSTP schemes. India has shifted gears and is now actively negotiating comprehensive economic cooperation agreements (CECAs), comprehensive economic partnership agreements (CEPAs), FTAs, and regional and bilateral trade and investment deals with trading partners at all levels of development and from all corners of the world.

Agreements have been concluded with several countries or groupings such as Asean, Bhutan, Chile, Japan, South Korea, Malaysia, Mercosur, Nepal, Singapore, Sri Lanka and Thailand. More are in the pipeline with Australia, EFTA, EU, Gulf Cooperation Council, New Zealand and the South African Customs Union. There has also been a broadening and deepening of existing agreements such as Bimstec, Apta (formerly the Bangkok

Agreement, now expanded to include China) and Safta (from Sapta). The template of PTAs has undergone a transformation. Tariff concessions and sensitive lists (carve-outs from tariff reductions) have traditionally captured the headlines. The margins of preference, however, are not as significant as they once were. PTAs are no longer limited to tariffs or even trade in goods.

Agreements negotiated now typically include chapters on non-tariff measures such as rules of origin requirements, standards and technical regulations, trade remedies (anti-dumping and safeguard measures); trade in services; trade facilitation and transit; investment; intellectual property rights; competition policy; and even dispute resolution. WTO's World Trade Report, 2011, has highlighted this movement from relatively 'shallow' integration to 'deep' PTAs, and examined some of the coherence issues that arise.

It is clear that different commercial interests and negotiating dynamics are at play, and the results obtained in different PTAs are by no means harmonised. Each agreement comes with its own specificities, adding a measure of complexity to the business and trading environment. Moreover, there is often overlap and duplication in the membership of PTAs. Even in the south Asian context, there is what Bhagwati refers to the 'spaghetti bowl' effect. Take India's preferential deals with Sri Lanka as an example. Bilateral trade is presently covered under the India-Sri Lanka FTA.

There is also the Safta, Apta and Bimstec where both India and Sri Lanka are signatories. Each PTA comes with its own sensitive lists - exempt from tariff concessions - and even their own rules-of-origin requirements. Thankfully, several PTAs have their own inbuilt review mechanisms that, of course, offer an opportunity to revisit and, where necessary, rationalise the fine print to ensure coherence across agreements.

The bottom line is that the proliferation of PTAs and their changing nature poses both an opportunity and a challenge to traders, policymakers and, eventually, the global trading system. The opportunities and benefits from trade deals should not be at the cost of adding unnecessary complexity to the business and trading environment. Keeping it simple wherever possible may be a good motto to follow.

(The author is professor at the Centre for WTO Studies, Indian Institute of Foreign Trade. Views are personal)